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Annual Report
1946-47

TWENTY-FIVE YEARS OF SERVICE

RED OWL STORES, INC.

Annual Report

RED OWL STORES, INC.

Year ended

March 3, 1947

RED OWL STORES, INC.

GENERAL OFFICES, MINNEAPOLIS, MINNESOTA

Board of Directors

Ford Bell	*Minneapolis, Minn.*
Alf. L. Bergerud	*Minneapolis, Minn.*
J. Y. Dear	*Green Bay, Wis.*
Glenn R. Grife	*Minneapolis, Minn.*
J. F. Ringland	*Minneapolis, Minn.*
Henry C. Stephenson	*Minneapolis, Minn.*
H. J. Worrell	*Minneapolis, Minn.*

Officers

Ford Bell	*President*
Glenn R. Grife	*Executive Vice President*
Alf. L. Bergerud	*Vice President*
W. C. Metzger	*Vice President*
H. J. Worrell	*Vice President*
Henry C. Stephenson	*Treasurer and Asst. Secy.*
L. A. Ludeking	*Secretary and Asst. Treas.*
J. Y. Dear	*Assistant Secretary*

EXECUTIVE OFFICES: 900 NORTH FOURTH ST., MINNEAPOLIS, MINNESOTA • STOCK TRANSFER AGENT: NORTHWESTERN NATIONAL BANK OF MINNEAPOLIS

To the Stockholders of Red Owl Stores, Inc.

As WE MARK the advent of the first major milestone in the history of your Company, the report for our twenty-fifth year seems of more than ordinary significance. To those of us who are actively engaged in the conduct of the business of the Company, it represents a pleasing culmination of a quarter century of progress and expansion. The difficulties of the past are all but forgotten in this our greatest year, and the uncertain future now engages our attention with high hopes for a continuation of the profitable operations.

Earnings: Consolidated earnings for our twenty-fifth year, which ended March 3, 1947, were $700,290 after provision for profit-sharing under a new plan approved by the stockholders on June 24, 1947, or $1.79 per share on the common stock outstanding at the end of the year. This compares with $218,742 for the preceding year which was the equivalent of 64 cents per share on the common stock outstanding at the end of that year after giving effect to the issuance of four shares of the new common stock in December 1946, for each of the then outstanding shares of no-par value common stock.

The consolidated statements of income and surplus, and balance sheet are shown on the following pages.

Sales: Total net sales for the year amounted to $47,695,965, the largest in our history, and represented an increase of 30.7% over the sales of $36,487,666 last year. The increase in dollar volume is the result of increased tonnage, as well as higher selling prices. The ratio of increase was approximately the same for both wholesale and retail sales.

Inventories: The increase in inventories to $4,513,739 was due in part to an increase in volume and increased price levels, but may also be attributed to a change in the supply situation resulting in the availability of many items which for a number of years were in short supply. The current year inventory also reflects the acquisition of additional merchandise in connection with the purchase of a group of eleven stores and a warehouse stock in and adjacent to Sioux Falls, South Dakota in January of this year.

Although this report covers specifically results of the Company's activities for the 1946-1947 fiscal year, the writing of it overlaps well into 1947-1948 fiscal year. This brings to our attention later developments in respect to inventories. Satisfactory progress is being made in reduction of stock on hand to a more normal relationship between inventories and sales.

Reserves for inventory valuation carried on the books at $330,248 at the close of the fiscal year are considered to be ample.

Financial: In a previous report to the stockholders attention was called to the need of additional funds in order to continue the expansion program necessary to more firmly entrench the Company's position for the future. This need was met during the latter part of the fiscal year through the public sale of 15,000 shares of preferred stock and 50,000 shares of new common stock. The net proceeds from the sale of this stock, approximately $2,000,000, have been largely used to reduce bank loans outstanding at the time of the financing, to temporarily finance the construction of our new warehouse at Hopkins, Minnesota, in regard to which further reference is herein made under the caption "Property, Plant and Equipment," and to meet obligations created by the increase in inventories.

Property, Plant and Equipment: Net depreciated value of property, plant and equipment, $2,680,415 at the close of the fiscal year, represented an increase of $1,456,351 over the corresponding investment at the end of the previous year. Considered in the light of previous moderate year to year increases in capital investments, this year's increase appears, at first glance, to be unduly large. It must be remembered, however, that much needed construction and improvements to existing store buildings and fixtures, as well as replacement and additional automotive equipment, could not be secured during the war years. In my last two annual reports to the stockholders reference was made to the effect that this program of expansion and betterment would be carried out as soon as conditions permitted.

The increase of $1,456,351 mentioned in the preceding paragraph is chiefly accounted for by the temporary financing of the Hopkins warehouse, which amounted to $693,378, by the increased net investment of $436,099 in furniture, fixtures and equipment and materials on hand for construction of such items, of $116,840 in leasehold improvements and $187,336 in automotive equipment.

Contracts have been effected for the sale and lease back to the company of the Hopkins warehouse upon its completion. In this connection the Management is of the opinion that there may be unreimbursed expenditures of substantial amount remaining upon the books of the Company. These will be amortized over the period of the long-term lease under which the premises will be occupied by the Company. Additional equipment to be installed in the new building will be the property of the Company. This is estimated to cost approximately $500,000 over the next two years.

Contemplated construction of similar warehouses on a smaller scale in

Fargo, North Dakota and Green Bay, Wisconsin are still in the planning stage. It is intended that these buildings, when constructed, will also be owned by others and occupied by the Company under long-term leases.

During the year considerable progress was made in respect to enlargement and modernization of existing retail outlets and construction of new retail outlets in leased buildings as evidenced by the increased net investment of $436,099 in furniture, fixtures and equipment and $116,840 in leasehold improvements. The cost of the fixtures and equipment in the eleven stores purchased in the Sioux Falls area is also reflected in this increase. Much of the automotive equipment owned by the Company and its subsidiaries at the beginning of the year was fully depreciated and uneconomical to operate as a result of long use during the war years. To the fullest extent possible these uneconomical units were replaced and additional new units acquired during the year under review. This is reflected by the net increase of $187,336 in the automotive equipment accounts.

Employee Incentive Plans: As previously reported to the stockholders, a new plan of profit sharing for store managers and district managers was in effect throughout the year. Under this plan the store managers' employment contracts provide for a sharing of the profits of the retail department or departments for which they are responsible in their respective retail stores. District managers participate in a somewhat similar plan in respect to the profits of their district. Profit sharing distributions are based upon quarterly operating statements. The total amount of such distribution applicable to the current year was approximately $195,000.

Incentive arrangements in the wholesale departments of the Company and of one of its subsidiaries have been in effect for some years past. These arrangements apply to salesmen and traveling supervisors in these departments.

At the annual meeting of the stockholders on June 24, 1947 an addition to the then existing profit sharing plans was adopted by the stockholders. This provides for the setting aside of a share of the profits each year, after certain requirements in respect to preferred and common stock have been met, to be paid to or set aside for the exclusive benefit of such employees, including officers, as may be determined by the Board of Directors. The plan as adopted was made retroactive to apply to the fiscal year ended March 3, 1947. In accordance with its provisions the sum of $104,794 has been set aside out of the profits for that year. This is set forth as a charge on the accompanying statement of income.

A retirement annuity plan, to which all employees are eligible, at no cost to themselves, has been in force since February 26, 1945. The Company has met the entire cost of the three annual premiums on this group retirement annuity at an average cost of approximately $68,000 per year.

In addition to the retirement annuity plan, the Company has for a long period of years sponsored group insurance for employees. This provides for life insurance and accident, sickness, hospitalization and surgical benefits at considerably less than cost to any employee who desires to enroll under the plan. The balance of the cost is borne by the Company.

Stockholders: During the past year the number of stockholders of Red Owl Stores, Inc. increased greatly. This was largely due to the issue and sale of new stock, both preferred and common. As of March 3, 1947 there were 439 holders of record in respect to the 15,000 outstanding shares of preferred stock and 583 holders of record of the 390,620 outstanding shares of common stock.

Out of the earnings for the past year the amount of $17,416.65 was set aside as dividends for holders of preferred stock. This represents the required amount of dividend from January 3, 1947, the date of issuance of this class of stock to April 1, 1947, the payment date of the first quarterly dividend thereon.

Total dividends paid during the fiscal year to holders of common stock amounted to $280,463.65. This was at the rate of 75¢ per share after giving effect to the stock split-up mentioned earlier in this report.

We appreciate the support our stockholders have given us during the past years and will strive to continue to merit that support in the future.

• • •

The success of the Company in its greatest year has been the result of cooperation in all of the phases of its business. There were many and varied problems to be met in a year which abounded with unusual and trying situations.

For the part that each employee contributed to this cooperative effort, the Management wishes to express its sincere appreciation.

Dated: June 26, 1947

Ford Bell

PRESIDENT

RED OWL STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statements of Income and Surplus, Fiscal Year ended March 3, 1947

STATEMENT OF INCOME

	Fiscal Years Ended March 3, 1947	Fiscal Years Ended March 4, 1946
Net retail sales	$35,372,224.95	27,247,352.72
Net wholesale sales	12,323,739.76	9,240,313.65
Net sales	47,695,964.71	36,487,666.37
Cost of goods sold, including warehousing expenses	39,689,298.32	30,345,429.29
Gross profit	8,006,666.39	6,142,237.08
Operating expenses, including selling, general and administrative expenses	6,666,660.12	5,280,244.36
Net operating profit	1,340,006.27	861,992.72
Other income	62,029.58	32,152.48
	1,402,035.85	894,145.20
Other charges—interest	60,667.57	61,712.16
	1,341,368.28	832,433.04
Provision for taxes on income:		
Federal normal and surtax	551,300.00	164,000.00
Federal excess profits tax	....	424,000.00
State	45,680.00	25,691.00
	596,980.00	613,691.00
Net Income for year before Credit and Charge set forth below	744,388.28	218,742.04
Refund of portion of Federal income taxes paid for fiscal years 1942 through 1945, substantially all under Section 722 of the Internal Revenue Code	60,696.82	....
	805,085.10	218,742.04
Provision for profit-sharing plan for employees, including officers, under plan approved by stockholders June 24, 1947 (note 7)	104,794.40	....
Amount transferred to Earned Surplus	$ 700,290.70	218,742.04

Charges for depreciation and rent included in costs and operating expenses amounted to $215,586.17 and $377,006.04 respectively for the fiscal year ended March 3, 1947.

See accompanying notes to financial statements for the fiscal year ended March 3, 1947.

STATEMENT OF SURPLUS

	Earned Surplus	Capital Surplus
Amount at March 4, 1946	$1,250,838.37	....
Excess of stated value of no par value common stock over $3.00 par value common stock exchanged therefor	....	3,425.55
Excess of proceeds over par value on sale of stock:		
15,000 shares 4¾% cumulative preferred stock—par value $100.00 per share	....	60,000.00
50,000 shares common stock—par value $3.00 per share	....	375,000.00
Amount transferred from income statement	700,290.70	....
	1,951,129.07	438,425.55
Deduct:		
Cash dividends on Red Owl Stores, Inc. capital stock:		
On 4¾% cumulative preferred stock, Series "A"—$1.18¾ per share	17,416.65	....
On old common stock (no par value) $1.00 per share	85,153.65	....
On new common stock (par value $3.00) $.50 per share	195,310.00	....
Expenses in connection with stock issue	....	104,076.84
	297,880.30	104,076.84
Amount at March 3, 1947 (note 6)	$1,653,248.77	334,348.71

RED OWL STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Balance Sheets as of March 3, 1947 and March 4, 1946

ASSETS

	March 3, 1947	March 4, 1946
CURRENT ASSETS:		
Cash in banks and on hand	$ 794,384.46	934,356.84
United States Government securities, at cost	9,037.00	159,037.00
Accounts receivable:		
Customers	540,523.13	375,884.56
Due from vendors, claims, etc.	268,184.95	89,414.57
	808,708.08	465,299.13
Less reserve for doubtful accounts	130,853.00	107,055.44
	677,855.08	358,243.69
Advances for merchandise purchases	88,729.46	131,399.03
Merchandise inventories at cost, less reserves (Note 2)	4,513,739.47	2,844,669.26
Total current assets	6,083,745.47	4,427,705.82
OTHER ASSETS:		
Cash surrender value of life insurance	12,240.00	8,405.00
Other investments	1,910.43	1,845.77
Due from employees	4,986.61	2,990.23
	19,137.04	13,241.00
PROPERTY, PLANT AND EQUIPMENT—at cost, less depreciation (Note 3)	2,680,414.65	1,224,063.71
PREPAID EXPENSES AND DEFERRED CHARGES:		
Prepaid insurance	27,680.60	29,666.34
Supplies	47,083.45	34,278.51
Miscellaneous	46,367.50	32,016.32
	121,131.55	95,961.17
	$8,904,428.71	5,760,971.70

See accompanying notes to financial statements for the fiscal year ended March 3, 1947.

LIABILITIES

	March 3, 1947	March 4, 1946
CURRENT LIABILITIES:		
Notes payable to banks:		
Current installments on long-term debt	$ 100,000.00	100,000.00
Demand notes	400,000.00	200,000.00
	500,000.00	300,000.00
Accounts payable	1,463,234.74	1,030,789.73
Dividend on preferred stock payable April 1, 1947	17,812.50	....
Accrued expenses	278,602.96	81,491.25
Provision for Federal and State taxes on income	569,569.92	559,268.66
Total current liabilities	2,829,220.12	1,971,549.64
LONG-TERM DEBT (Notes 4 and 6):		
3% notes payable to banks—maturing in installments of $100,000.00 each on November 1, 1948 and 1949 (exclusive of current installments, $100,000.00)	200,000.00	300,000.00
4% notes payable—maturing in annual installments of $100,000.00 each commencing November 1, 1950	1,000,000.00	1,000,000.00
	1,200,000.00	1,300,000.00
RESERVES:		
Contingencies	100,000.00	106,901.09
Insurance	115,751.11	106,451.05
	215,751.11	213,352.14
CAPITAL STOCK (Notes 5 and 6):		
Preferred stock—par value $100.00 per share:		
Authorized 25,000 shares, issued and outstanding 15,000 shares 4¾% Cumulative, Series A	1,500,000.00	....
Common stock:		
Par value $3.00 per share:		
Authorized 750,000 shares, issued and outstanding 390,620 shares	1,171,860.00	....
Without par value:		
Authorized 100,000 shares, issued and outstanding at stated value 85,153.65 shares	....	1,025,231.55
	2,671,860.00	1,025,231.55
SURPLUS, per accompanying statement (Note 6):		
Capital	334,348.71	....
Earned	1,653,248.77	1,250,838.37
	1,987,597.48	1,250,838.37
	$8,904,428.71	5,760,971.70

RED OWL STORES, INC. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements, Fiscal Year ended March 3, 1947

1. The figures for the fiscal year ended March 4, 1946 are presented for comparative purposes and have been reclassified to conform with the classification adopted for the fiscal year ended March 3, 1947.

2. The inventories, which include supplies, $158,714.80, and new equipment, $111,886.89, are valued at cost, as follows:

Warehouse inventories, supplies, and certain minor departmental inventories in the retail stores are based on physical inventories valued at cost on a first-in, first-out basis.

Inventories in certain outside warehouses and new equipment are based on book inventories valued at cost on a first-in, first-out basis.

Inventories at retail stores, except as noted above, are based on book inventories, adjusted periodically to physical inventories, valued at retail prices, reduced to estimated cost on a first-in, first-out basis by application of percentage of mark-up.

Inter-company profits in the inventories have not been eliminated, since the amount is believed to be insignificant. The amounts of opening and closing inventories, after deducting reserves, used in determining cost of sales in the accompanying income statement are as follows:

	Gross	Less Reserve	Net
March 4, 1946	$3,143,817.02	299,147.76	2,844,669.26
March 3, 1947	4,843,987.44	330,247.97	4,513,739.47

The inventory valuation reserves include a general reserve of $252,500.00 as established at March 1, 1943 plus reserves for swelled goods, cash discounts, price adjustments, etc., $77,747.97 at March 3, 1947.

3. Property, plant and equipment and related applicable reserves for depreciation consist of the following items:

	Fiscal Year Ended March 3, 1947 Gross Book Value	March 3, 1947 Reserve for Depreciation	March 3, 1947 Net Book Value	Mar. 4, 1946 Net Book Value
Land	$ 220,279.01	....	220,279.01	156,287.72
Buildings	270,052.62	80,180.50	189,872.12	213,434.59
Buildings on leased property ...	59,075.76	31,172.29	27,903.47	30,634.78
Furniture, fixtures and equipment	1,789,771.95	822,372.87	967,399.08	576,421.14
Automotive equipment	553,128.75	221,126.93	332,001.82	144,665.86
Investment in warehouse building under construction*	693,377.99	....	693,377.99	15,000.00
Construction materials for furniture, fixtures and equipment .	71,418.83	....	71,418.83	26,297.61
	$3,657,104.91	1,154,852.59	2,502,252.32	1,162,741.70
Leasehold improvements — at cost, less amortization			178,162.33	61,322.01
			$2,680,414.65	1,224,063.71

*The Company and one of its subsidiaries have entered into certain contractual arrangements with outside parties providing for the sale of the warehouse building under construction and long-term lease from the buyer. As a result of the foregoing, the Management is of the opinion that there may be unreimbursed expenditures of substantial amount. Equipment to be procured by the Company for such warehouse is estimated to cost an additional $500,000.

4. Long-term debt may be prepaid at the option of the Company at varying premiums.

5. The 4¾% Cumulative Preferred Stock, Series A, is redeemable on call and on voluntary liquidation at $107 per share to January 1, 1952, $106 per share from that date to January 1, 1957 and $105 per share thereafter, plus dividends accrued or in arrears to the redemption date. Shares of such preferred stock (taken at $100.00 per share) are convertible into common stock at the following prices:

$12.50 per share to December 31, 1949
$14.50 per share from January 1, 1950 to December 31, 1952
$16.00 per share from January 1, 1953 to December 31, 1954
$18.00 per share from January 1, 1955 to December 31, 1956 (at which date conversion privileges expire).

In connection with the foregoing, 120,000 shares of authorized and unissued common stock are reserved for issuance upon conversion of preferred stock. The conversion prices are subject to adjustment in certain instances specified in the "Certificate of the Designations, Preferences and Relative, Participating, Optional or Other Special Rights of the 4¾% Cumulative Preferred Stock, Series A, of Red Owl Stores, Inc.," which also sets forth certain restrictions on the issuance of additional shares of preferred stock, increase of funded debt and sale of property.

6. Restrictions under note agreements and preferred stock requirements:

Pursuant to the agreement relating to the 4% serial notes dated November 1, 1944, stock payments including dividends (except stock dividends), purchases, etc., as defined in the agreement, to and including the date of the proposed stock payment may not exceed the amount of consolidated net income, as defined, from February 26, 1945 to and including the date of the proposed stock payment. The consolidated net income of the company and its subsidiaries subsequent to February 25, 1945, adjusted for gains and losses from the sale of fixed assets as required by the agreement, amounted to $582,573.58 at March 3, 1947 after deducting dividends paid.

The preferred stock requirements of the certificate of incorporation, as amended, and Board of Directors' resolution authorized thereunder provide further that when stock payments applicable to common stock are proposed, aggregate stock payments applicable to both preferred and common stock, including the proposed common stock payment, may not exceed the amount of consolidated earned surplus accrued after March 4, 1946 to the date of the proposed stock payment; this amount at March 3, 1947 was $507,204.80, after deducting stock payments consisting of dividends paid.

The note agreement referred to above also sets forth the following working capital requirements, which were maintained at March 3, 1947:

	Corporation	Consolidated
(1) Minimum amount after stock payments as defined in agreements	$1,333,333.00	2,000,000.00*
(2) Minimum amount at all times	1,000,000.00**	1,500,000.00

*After stock payments, the consolidated net working capital must be at least equal to $1,600,000.00 (133-⅓% of the consolidated funded debt, $1,200,000.00) or $2,000,000.00, whichever is the greater; after stock payments, the net working capital of the company alone must be at least $1,333,333.00 until November 1, 1949 and thereafter at least equal to 133-⅓% of the funded debt of the company.

**The net working capital of the company must exceed $1,000,000.00 until November 1, 1949; after that date it must at least equal the unpaid principal amount of the notes.

7. At the adjourned annual meeting held on June 24, 1947, the stockholders approved a profit-sharing plan for employees, including officers, of the company and of its subsidiary companies. The maximum amount payable under the plan applicable to the fiscal year ended March 3, 1947 was approximately $167,000.00 of which the Board of Directors authorized five-eighths or $104,794.40 to be paid as profit-sharing. The management recognizes that this may be a deductible item only when paid and the provision for taxes has not been adjusted therefor.

PEAT, MARWICK, MITCHELL & CO.

NEW YORK

ATLANTA	MILWAUKEE
BOSTON	MINNEAPOLIS
CHARLOTTE	NEW ORLEANS
CHICAGO	NEWARK
CLEVELAND	PHILADELPHIA
DALLAS	PITTSBURGH
DENVER	PORTLAND
DETROIT	ST LOUIS
GREENSBORO	SALT LAKE CITY
HOUSTON	SAN FRANCISCO
INDIANAPOLIS	SEATTLE
KANSAS CITY	TULSA
LOS ANGELES	WASHINGTON
MEMPHIS	WORCESTER
CANADA	MEXICO
GREAT BRITAIN	GUATEMALA
EUROPE	COSTA RICA
CUBA	SOUTH AMERICA

NORTHWESTERN BANK BUILDING
MINNEAPOLIS 2, MINN.

June 26, 1947

Accountants' Report

To the Board of Directors,

Red Owl Stores, Inc.,

Minneapolis, Minnesota.

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and Subsidiaries as of March 3, 1947 and the related statements of income and surplus for the fiscal year then ended, have reviewed the system of internal control and accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statements of income and surplus, with notes thereon, present fairly the position of Red Owl Stores, Inc. and Subsidiaries as of March 3, 1947 and the results of their operations for the fiscal year ended on that date in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Interior arrangement of the Red Owl Store in Carrington, North Dakota.

Section of the modern Red Owl Store in Green Bay, Wisconsin.

Merchandise display of the Red Owl Store in Watertown, South Dakota.

A portion of the Company's large and modern truck fleet.

The Company performs three functions of food distribution: warehousing, wholesaling and retailing. Warehouse operations are conducted in Minneapolis, Fargo and Green Bay, and to a lesser extent in Rapid City. Distribution to Red Owl Stores, Red Owl Agency Stores, and independent merchants is handled with trucks owned by the Company. A part of this truck fleet is pictured. Also shown are typical modern Red Owl Stores.

These stores are expressions of the Company's long experience in store management, sales planning, store layout, accounting, advertising, and efficient and profitable food retailing. Expansion plans emphasize enlargement and modernization of existing stores, rather than the opening of many additional new stores.

Aluminum-bodied super-cargo trailer operating from Minneapolis.

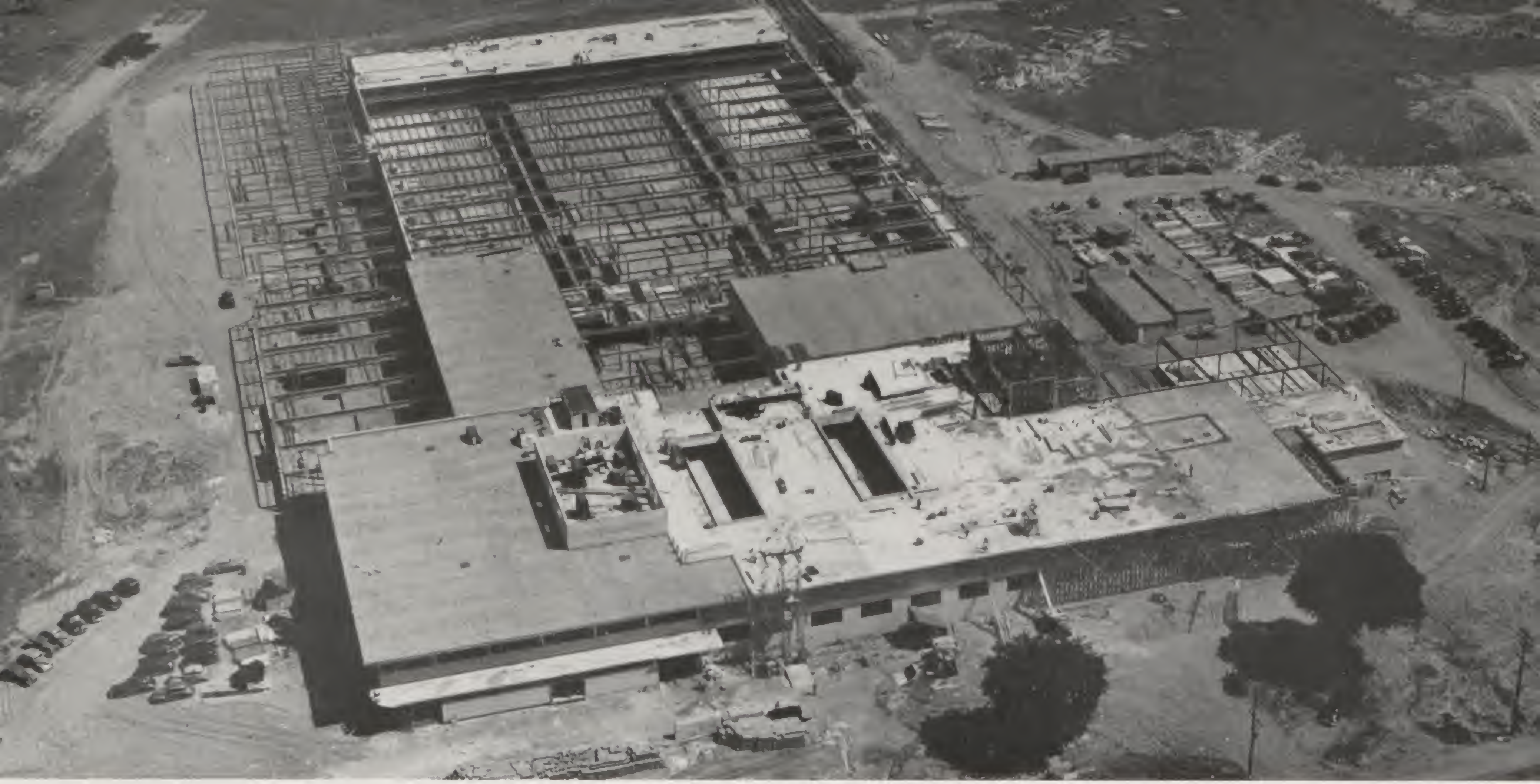
Modern Red Owl self-service market in Huron, South Dakota.

Full-view window fronting the Red Owl Store in Red Wing, Minnesota.

Remodeled Red Owl Store in Worthington, Minnesota.

Red Owl Agency Store in Hudson, Wisconsin.

Modernized self-service Red Owl Store in Iron River, Michigan.



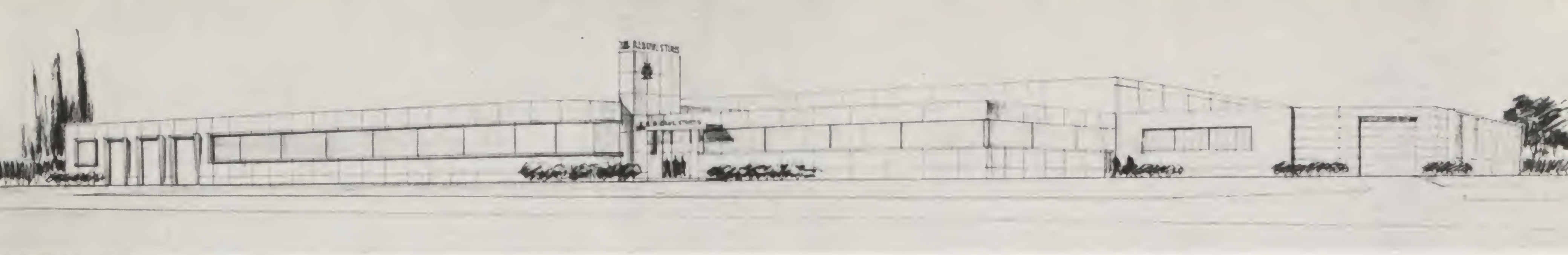
PLANS FOR THE FUTURE. The symbol of Red Owl's future is this new headquarters warehouse and general office building now being completed at Hopkins, Minnesota. This structure includes a retail store, public cafeteria, and—for improved servicing of Company and Agency stores in the area—a bakery, cabinet shop, coffee roasting and soft drink bottling plants, garage and truck storage facilities.

The Company's program includes plans to convert certain present stores into super markets by alteration and replacement of fixtures and equipment, by installation of new departments, and in some instances, removal of stores to new locations. Experience in efficient selling governs the Company's choice of new locations. The Company also plans to erect super markets in a number of communities not now served by Red Owl.

ARCHITECT'S DRAWING OF NEW RED OWL GENERAL OFFICES AND WAREHOUSE NEARING COMPLETION AT HOPKINS

The planning and construction of new Red Owl stores, and the modernization of existing stores, is no haphazard affair. Many studies of store traffic made by the Company and others show the direct effect upon sales produced by the location of individual departments. Such things as shelf height, aisle width, proper identification of departments and merchandise groups, provision for interior displays, and many other details have a bearing upon volume and profits.

ARCHITECT'S DRAWING OF THE PROPOSED RED OWL SUPER MARKET TO BE ERECTED IN MINOT, NORTH DAKOTA

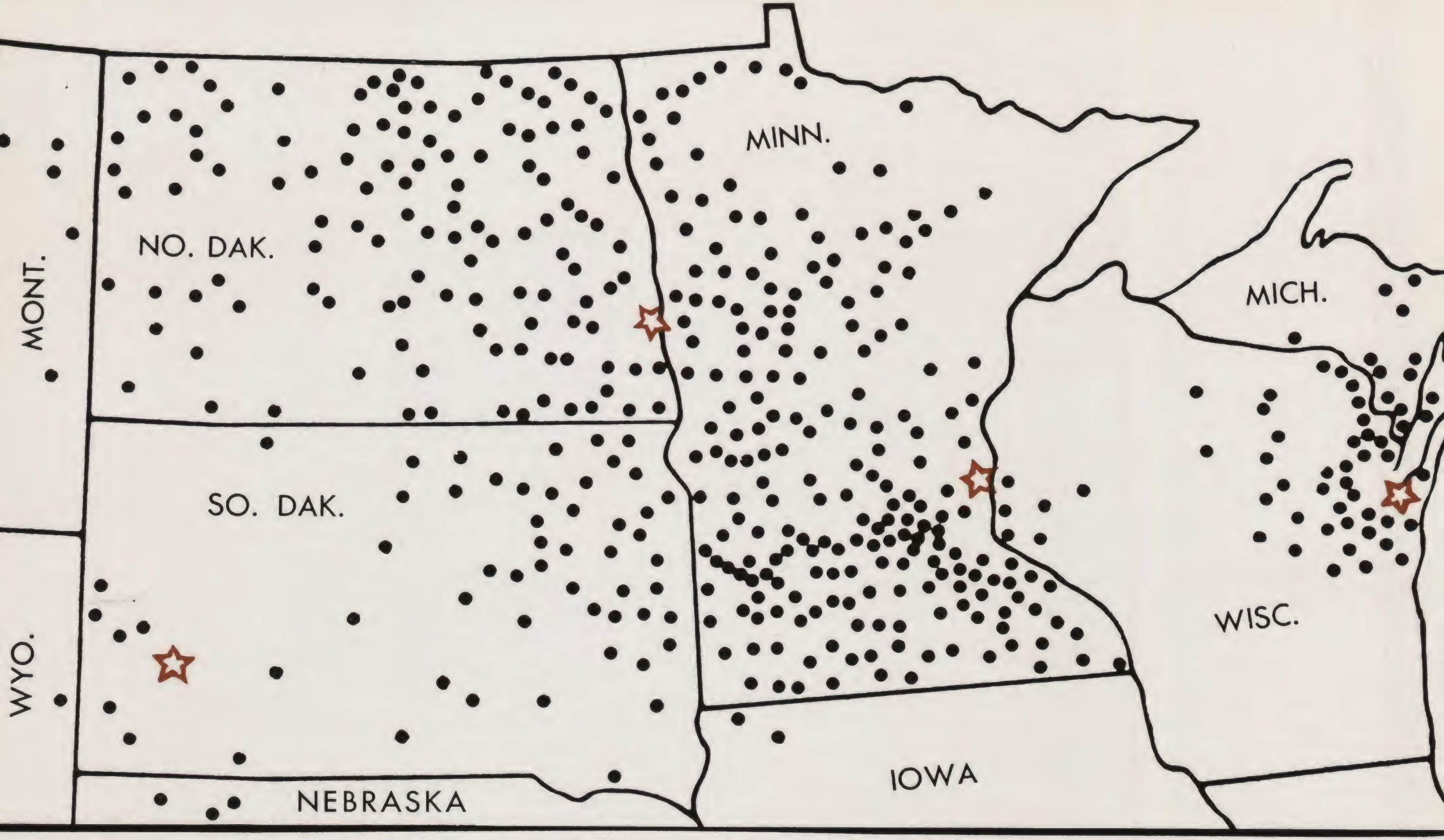


ARCHITECT'S DRAWING OF THE PROPOSED RED OWL WAREHOUSE TO BE CONSTRUCTED AT FARGO, NORTH DAKOTA

All stores in the Red Owl system have the benefit of the Company's quarter century of experience in store planning and administration, a considerable factor in both present and future success.

New warehouse and processing units also are to be built in Green Bay and Fargo, facilitating the servicing of Red Owl stores in those areas. Here, too, the experience of twenty-five years goes into planning maximum efficiency for these new units.

ARCHITECT'S DRAWING OF THE PROPOSED RED OWL WAREHOUSE, GARAGE AND OFFICE BUILDING TO BE CONSTRUCTED AT GREEN BAY, WISCONSIN



This map shows present Red Owl operations after twenty-five years of growth. From one store in Rochester, Minnesota to 218 Company stores and 371 Agency stores in nine states, plus warehouses, processing plants and an efficient food distribution system—that is the record as we pass from the first quarter-century of service into the second.

RED OWL

RED OWL

Twenty-five Years of Service